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SUBJECT: UKRAINIAN MOBILE TELECOM SECTOR AT A GLANCE

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11. (SBU) Summary: The Ukrainian mobile telecom sector is divided among three major service providers - Kyivstar, MTS-Ukraine, and Life - which control more than 90 percent of the market. Kyivstar, the market leader, is jointly owned by Norwegian Telenor and Russian Alfa Group. MTS-Ukraine, the second largest provider, is a subsidiary of MTS-Russia, Russia's largest mobile phone company. Life, owned by Turkish Turkcell and Ukrainian System Capital Management (SCM), is a relative newcomer but has quickly emerged as a viable third option. Despite difficult economic conditions, the Ukrainian mobile telecom sector fared well in 2009, as the companies focused on cost-cutting and streamlining of operations. Although Russian firms are heavily invested in the sector, both Kyivstar and MTS-Ukraine maintain that their interests lie only in the realm of business and this precludes any involvement in politics. End Summary.

KYIVSTAR

12. (U) Kyivstar is the largest and most profitable mobile telecom company in Ukraine. With about 22.2 million users, its subscriber market share is around 40% while its revenue market share is almost 50%. Kyivstar uses a Global System for Mobile communications (GSM) standard and has upgraded most of their systems to use Enhanced Data Rates for GSM Evolution (EDGE) technology. In addition to its voice services, Kyivstar offers messaging, voicemail, a wide range of multimedia operations, and mobile internet through its EDGE technology. Kyivstar started its operations in 1997 and has grown into one of the most recognizable name brands in Ukraine. In addition to its Kyivstar name, the company has developed the DJUICE brand targeting the youth. DJUICE currently has about 6 million subscribers.

KYIVSTAR OWNERSHIP ISSUES

13. (SBU) Norway's Telenor owns 56.5% of Kyivstar while Altim, the telecommunications arm of Russia's Alfa Group, controls the remaining 43.5%. The ownership structure, however, is likely to change as the two companies have agreed to resolve a long-running conflict over their Russian and Ukrainian assets (reftel). According to a preliminary agreement, Telenor and Altim will merge their Russian and Ukrainian assets and form a new company called Vimpelcom Ltd, jointly owned by the two partners. [Note: Russia's Altim is the majority shareholder in Vimpelcom, with Telenor being the minority shareholder. End Note.] The new entity will also absorb Beeline and Golden Telecom, Vimpelcom's Ukrainian subsidiaries which together account for about 4% of the market. The merger is awaiting a ruling by Ukrainian and Russian regulators and an approval of an Extraordinary General Meeting of Shareholders

(EGMS) of Kyivstar and Vimpelcom.

MTS-UKRAINE

15. (SBU) MTS-Ukraine or Ukrainian Mobile Communications (UMC) is the second-largest mobile provider in Ukraine with about 17.75 million GSM subscribers and 36% market share. MTS-Ukraine is a wholly-owned subsidiary of Mobile Telesystems (MTS), the largest mobile operator in Russia and the CIS. Through contractual agreements, it is the only Blackberry service provider in Ukraine. MTS-Ukraine is Ukraine's most active telecom company in Corporate Social Responsibility (CSR) and is a member of the U.N. Global Compact platform.

LIFE

16. (U) Life is the third-largest Ukrainian mobile telecom company, providing service to about 10.7 million subscribers. Turkcell, Turkey's largest mobile phone operator, owns 54.2% of the company and Ukrainian SCM Holdings, controlled by billionaire businessman Rinat Akhmetov, owns the remaining 45.8%. Launched in January 2005, Life was the first provider to introduce EDGE technology. Today, it has the largest EDGE coverage in the country. On February 16, Life signed a four-year multimillion dollar contract with U.S.-based company Telenity which will further enhance Life's ability to compete and expand in Ukraine. While Life holds only 18% of the market share, it has quickly established itself as a viable alternative to the two leading operators and, according to the research group Wireless Intelligence, became the fastest growing operator in the world in terms of subscriptions.

EFFECTS OF THE GLOBAL ECONOMIC CRISIS

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17. (SBU) While the economic crisis has not spared the mobile telecom industry, Ukraine's three leading companies have weathered the storm in good shape. All three companies have coverage of nearly 100% of Ukraine's territory, and roaming agreements with international providers allow users world-wide coverage. Kyivstar and MTS-Ukraine representatives acknowledged that revenue suffered slightly, as corporate clients like banks dropped expensive packages and individual users cut down on their usage of minutes. At the same time, the number of actual users stayed similar to previous levels. [Note: Ukraine's cell phone usage penetration was well in excess of 100% prior to the crisis since users had multiple SIM cards from different providers. Our contacts indicated that the decreased number of subscribers was a result of users dropping their secondary accounts. End Note.] Both Kyivstar and MTS-Ukraine credited timely cost cutting and streamlining measures as well as effective marketing campaigns for their ability to successfully withstand the economic downturn.

SUBSCRIBER BASE

18. (SBU) Despite a high penetration rate, most subscription sales in Ukraine come from pre-paid accounts instead of long-term contracts. [Note: Subscriber numbers are based on usage within a given period of time; most companies regard a user who used his account at least once in the past six months a subscriber. End Note.] Long-term contracts make up less than 10% of the overall subscriber numbers and are almost exclusively restricted to larger corporate customers. The unwillingness of users to sign long-term commitment contracts results from various factors, Kyivstar's Product Management and Development Director Vitalii Vorozhbyt opined, including unstable incomes, "shadow income," and lack of credit history. Vorozhbyt said that, despite best efforts of mobile telecom providers to boost long-term subscriptions, the number has hit a plateau and is unlikely to climb higher in the near future.

LICENSES

¶9. (SBU) All three major providers own GSM 900 MHz and GSM 1800 MHz licenses. MTS-Ukraine, in addition, owns a CDMA-450 MHz license. Utel, the mobile telecom subsidiary of the state-owned giant Ukrtelecom, is the only Ukrainian provider with a 3G license. According to Vasyl Latsanyh, Marketing Director of MTS-Ukraine, Utel's 3G license is likely no more than a ploy by the Ukrainian government to attract a buyer for Ukrtelecom. [Note: Rumors that the GOU will privatize Ukrtelecom have circulated for several years. End Note.] On September 29, 2009 the Ukrainian National Commission for Communications Regulation (NCCR) published tender conditions for the auction of additional 3G licenses. The auction was originally scheduled for the end of November 2009. However, President Yushchenko blocked the tender because the Cabinet of Ministers did not plan on compensating the Ministry of Defense (MoD), which currently has the rights to the frequencies, for its losses. The Cabinet of Ministers later reached an agreement with the MoD that the Ministry would receive UAH 2.5 billion (\$313 million) for the four 3G frequencies which were to be sold. However, on November 27, 2009 the NCCR suspended the tender and stated it would not go forward until the MoD, Ministry of Transportation and Communications, and Prosecutor General's Office had finalized the conversion of the frequencies as required by Ukrainian legislation. According to Kyivstar's Head of Products Development and Management Alexey Kireev, the military's unwillingness to part with the spectrum casts doubt on development and potential investment into mobile telecom in Ukraine.

COMMENT: Should Russia Be a Concern?

¶10. (SBU) Compared with the state-owned telecommunications behemoth Ukrtelecom, Ukraine's major mobile services providers are modern, well-managed enterprises focused on the bottom line. Despite occasional frustrations with the governmental bureaucracy, our contacts have expressed strong optimism for the future. Profit margins in Ukraine remain among the highest in the world, making the market as attractive as ever.

¶11. (SBU) Representatives of both Kyivstar and MTS-Ukraine were predictably supportive of their Russian parent companies and stated that they did not involve themselves in local politics but were simply interested in growing their respective businesses. Neither have Ukrainian authorities expressed concern to us about the market dominance of Russian mobile phone providers. Nonetheless, it is worth noting that Russian interests will have a virtual stranglehold on the market and could at least temporarily halt services to 76% of mobile phone users -- of course such a move would not be without business ramifications as users would quickly switch services. End

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Comment.